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Horticultural Product Market

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Report Highlights:

China is both the world's largest producer and consumer of horticultural products, with domestic fruit and vegetable demand the primary driver of its horticultural economy. Chinese demand for U.S. horticultural products has increased significantly with citrus, grapes, apples, and tree nuts accounting for the majority of American exports. U.S. products enjoy a good reputation in China as a growing number of consumers here view consuming high-quality horticultural products as an integral part of a safe and healthy lifestyle. This perception combined with growth in consumer disposable income should provide good market opportunities for U.S. horticultural producers in the years to come.

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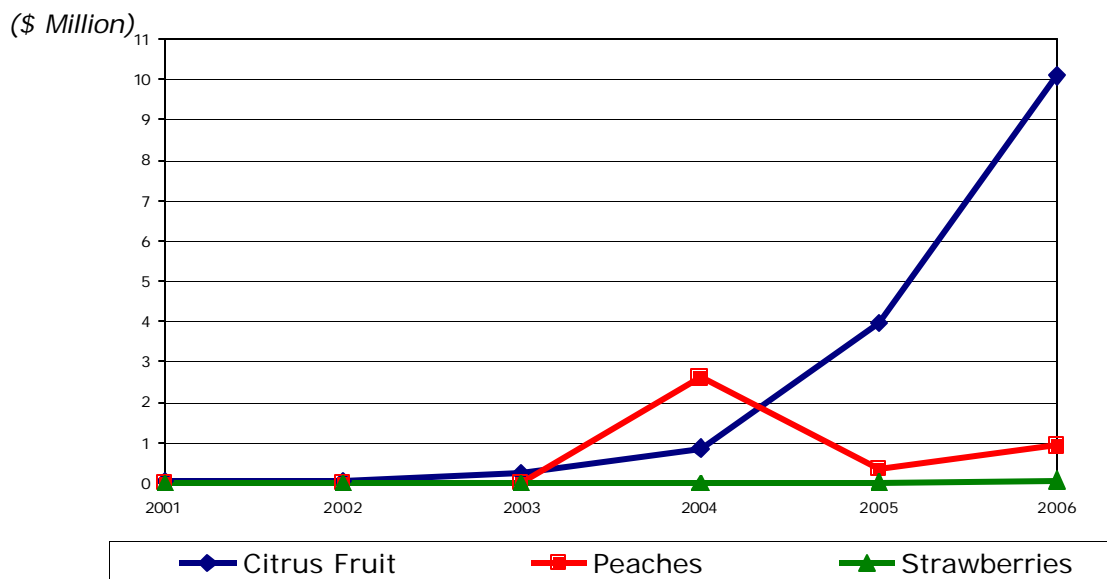
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MARKET OVERVIEW

Chinese consumer demand for horticultural products is the world's largest and continues to drive its large horticultural economy. Thousands of farmers throughout China are expanding production to meet increased demand from Chinese consumers. In the past three years the demand for U.S. horticultural products has also shown significant growth, with citrus, grapes, apples, and tree nuts accounting for the bulk of U.S. horticultural exports to China. Real GDP continues to grow at a significant and sustained rate, translating into increased disposable income and greater demand for higher quality horticultural products. This trend bodes well for U.S. exporters because U.S. agricultural products are widely recognized in China for their quality. The market for horticultural products should continue to grow, and evolve into a substantial market for a number of U.S. horticultural products.

Figure 1: Growth of Major U.S. Horticultural Exports to China



Source: World Trade Atlas

Current Status of Horticultural Products in China

China is still a developing country where urban and rural incomes vary greatly. The big three urban areas of Beijing, Guangzhou and Shanghai continue to offer good market opportunities for U.S. horticultural products. However, in addition to the big three, China has a large number of diverse emerging city markets (ECMs). These markets are characterized by rapidly developing economic environments, with a growing presence of modern domestic and international retailers. ECMs have grown at a rapid rate in the past few years, often evolving into good potential markets for U.S. products. This is in contrast to rural areas in China, where economic development lags far behind. For consumers in rural areas, where meat or animal protein is not a regular part of the diet, many are not able to afford expensive imported fruit or tree nuts. U.S. producers should focus on the horticultural product markets in ECMs and the big three, as consumers there tend to associate the U.S. image or brand with a horticultural product that is generally perceived to be safe and of high quality.

Branding is important for U.S. products in the China market, because consumers often recognize that imports must pass through detailed inspections in the U.S., and once again when the products arrive in China. U.S. producers also have a number of advantages over local producers in terms of the level of technology and production control systems that are key elements essential to produce and market high quality horticultural products.

With a reputation for superior quality, U.S. horticultural products are often used as gifts. Chinese gift baskets, given during major holidays, usually have a large assortment of fruits and, to a much lesser extent, vegetables. For these baskets, Chinese consumers often place a greater preference on the appearance of the horticultural products used. Large, colorful, and nutritious U.S. products are often preferred.

Today there are more than 40 million Chinese households involved in the production of hort products, accounting for almost 18% of cultivated land. With a majority of farmers having little knowledge of market forces, some use their own intuition in deciding what to plant, while others follow incentives or subsidies offered by the government. This is the case with apples in the North, and citrus in the South, both of which have the support of government production programs. Yet many of the Chinese horticultural products produced for domestic consumption do not meet U.S. import requirements, because some agricultural chemicals used in domestic production either fail to meet international standards or lack uniform application procedures and controls by local authorities.

Chinese horticulture products suitable for export are often produced on consolidated farms, typically no larger than 1,000 acres, with the packer or processor controlling production practices. Many of these processors are Korean, Japanese, or Taiwanese joint ventures that provide investment as well as marketing expertise and technology. Nevertheless, these joint ventures are not without problems, and overseas investors often complain Chinese farmers lack technical skills necessary for efficient, competitive production.

Market Access

U.S. importers still have many obstacles to overcome in order to achieve success in the Chinese market. There is a lack of product knowledge among distributors, and in many cases supermarkets do not know how to properly market and handle imported horticultural products. Some U.S. horticultural products available for sale in Chinese retail outlets are not always of the highest quality, mainly due to a lack of proper distribution, handling, and storage of produce by wholesalers and retailers.

Even though cold chain networks continue to grow in China, some parts of the country still lack product specific cold chain facilities. While major ports like Dalian, Qindao, Shanghai, Shenzhen, and Tianjin do have appropriate cold storage facilities, some areas west of the heavily developed eastern markets have a smaller number of product specific cold chain facilities and transportation networks necessary to assure time and temperature sensitive horticultural products reach their destination in good condition. A few high-end hotels in Western China even airfreight fresh fruit and vegetables from other parts of China to ensure quality. Consequently, many large companies choose to handle their own logistics. Carrefour's northern China stores, for example, receive between eighty and ninety percent of their imported horticultural products through one major supplier in Dalian.

Chinese Consumer Statistics		
Annual Per Capita Disposable Income of Urban Residents (2005)		
Region	RMB	\$US
Shanghai	18,645	2,360
Beijing	17,653	2,235
Zhejiang	16,294	2,063
Guangdong	14,770	1,870
Tianjin	12,639	1,600
Urban Average	10,493	1,328
Annual Per Capita Spending on Vegetables (Urban Households)		
Shanghai	383	48
Guangdong	349	44
Yunnan	348	44
Zhejiang	335	42
Liaoning	329	42
Urban Average	276	35
Annual Per Capita Spending on Fresh & Dried Fruit (Urban Households)		
Beijing	380	48
Shanghai	334	42
Zhejiang	297	38
Tianjin	283	36
Liaoning	270	34
Urban Average	206	26
Source: China Statistical Yearbook, 2006		

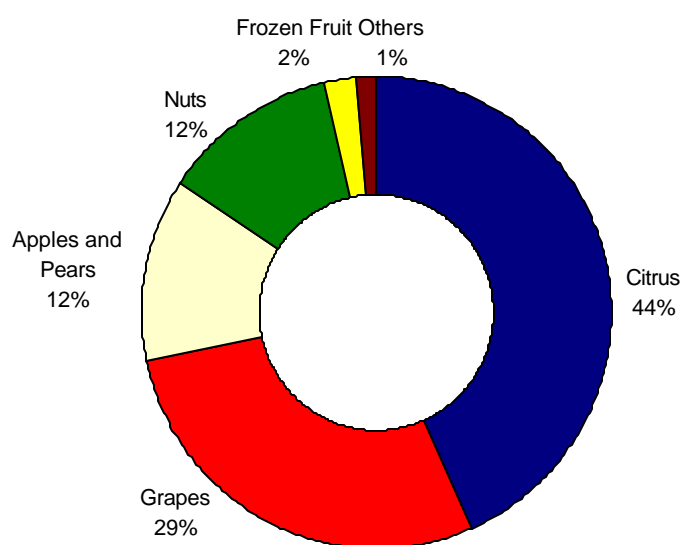
Some imported horticultural products suffer from branding and differentiation issues, with counterfeit products using U.S. labels, thus diluting quality brand names. Effective marketing campaigns promoting imported brands in China will most likely result in counterfeiters taking advantage of this prized brand recognition. U.S. horticultural exporters need to register and protect their trademark, logo, Internet domain, and Chinese Language translation. Brand registrations should be completed with the Chinese Trademark Office in Beijing. Currently, non-Chinese entities are normally required to use the services of a Chinese agent when submitting a trademark application in China.

After a product is registered, if it is discovered a trademark is being infringed, immediate action can be taken to protect and enforce your rights. Actions vary from investigations, raids, seizures, civil litigation, and criminal prosecution. The action most appropriate depends on whether the trademark is registered in China, where the harm occurs, and the infringer. Protecting your rights most often requires professional legal advice. The Foreign Agricultural Service (FAS) does not provide legal advice, but has established Intellectual Property Rights (IPR) staff that can suggest best practices on registration and enforcement, as well as a list of attorneys. If in the event assistance is needed, contact the appropriate regional Agricultural Trade Office (ATO) in China. In addition, the U.S. Embassy Foreign Commercial Service office also may be of assistance in IPR matters.

PRODUCTS

Major fruits produced in China include apples, citrus, pears, melon, grapes, bananas, pineapple, lychee, and longan. Major vegetables include Chinese and European cabbage, tomatoes, Chinese radishes, beans, capsicum, mushrooms, asparagus, potatoes, and onions. China also grows a number of unique flowers and plants for use as cut flowers, pot plants, and landscaping. Prices for horticultural products are subject to seasonal changes in supply and demand. These fluctuations are greatest during the Chinese holidays, and can result in extreme price volatility.

Figure 2: A Break Down of U.S. Horticultural Exports to China (2006)



Source: World Trade Atlas
Note: Does not include Hong Kong

DEMAND

An important factor to keep in mind is that not every Chinese consumer shops alike. Significant differences exist in spending habits across generations and geographic regions. Consumers in the over-35 age group tend to be more conservative and traditional in their food consumption habits, preferring to shop daily and sticking to local brands. While those under 35 tend to have higher disposable incomes and prefer to shop weekly because of active lifestyles. The under-35 group is also more familiar with Western products and international tastes, including U.S. horticultural products.

The urban and rural income gap also affects consumption patterns of fruits and vegetables. In urban and rural areas, per capita consumption of vegetables is virtually the same, while per capita fruit consumption of rural dwellers is still less than one third of the total per capita fruit consumption of city dwellers, with many rural dwellers viewing fruit as a luxury. Still, the government is making efforts to close the gap between urban and rural consumption. With the successful implementation and execution of government programs to increase farmer income, and the gradual migration of farmers to urban areas, income gains should be distributed more evenly over the Chinese population. Thus, longer term more households should consume fruits and vegetables at levels similar to consumers in urban areas, increasing domestic demand for hort products.

Despite these differences, there are general trends in Chinese consumption. Such trends are important to consider when looking at potential demand for the hort product market. There is a greater focus by consumers on safe and healthy food as many Chinese increasingly enjoy faster paced lifestyles. Likewise, the one child policy in China opens the door to marketing healthy hort products. With a large majority of households only able to have one child, many families spend a large portion of disposable income on the healthy development of their child's future.

With the above said, domestic consumption of fresh fruit continues to grow at a steady rate in China. In 2005, the Chinese consumed 15.4 million MT of apples, making it the largest consumer of apples in the world. The markets for other fresh fruit products have also seen large increases in demand. 2001 to 2005 domestic consumption increases were as follows: domestic fresh orange consumption increased 21 percent, with the Chinese consuming 4.4 million MT of fresh oranges in 2005; domestic consumption of fresh pears increased 24 percent, with 10.1 million MT of fresh pears consumed in 2005; domestic consumption of fresh table grapes increased 28 percent, with China consuming 4.8 million MT of fresh table grapes in 2005.¹ In addition, a large number of vegetable products are also seeing growing domestic demand. The statistics underscore a growing consumption trend in China, with Chinese traders citing increased health awareness and consumer rationality as reasons for the increase in domestic horticultural product consumption.

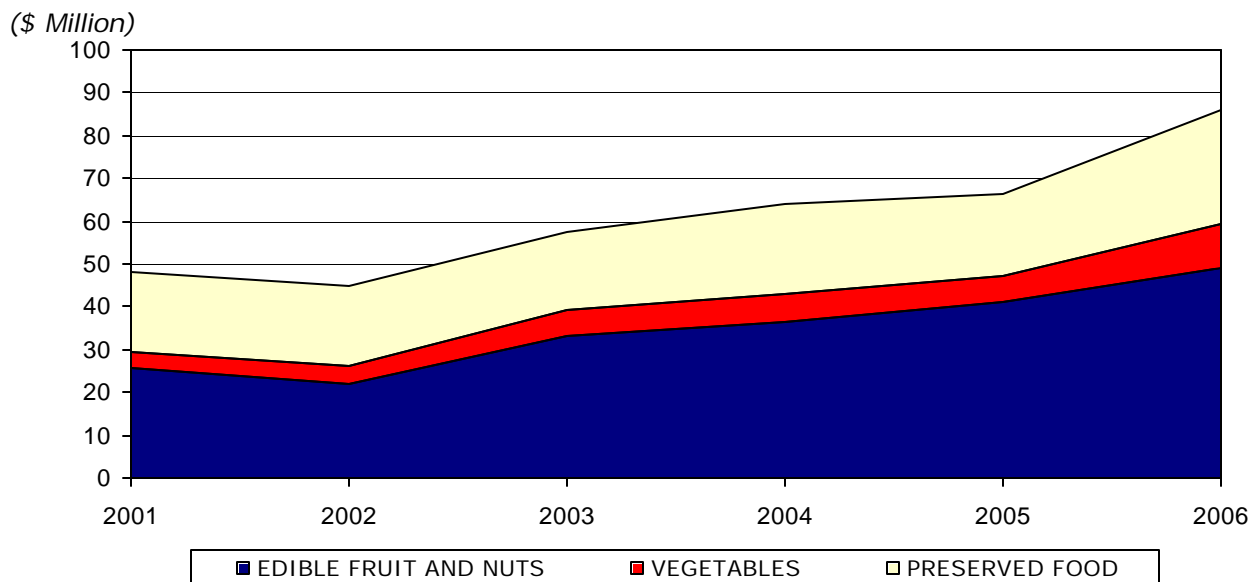
PROMOTIONAL ACTIVITIES

ATOs are involved in various promotional activities designed to increase consumer awareness of U.S. horticultural products. In 2004, ATO Beijing organized a team of Chinese traders to visit the U.S. and conduct a tour of U.S. fresh fruit packing, food processing, trade, and retail operations. Such trade missions expose Chinese traders to the wide variety of U.S. products available, assist trade development between Chinese importers and American exporters, and generate increased export sales of American food products. ATO Beijing and the other FAS Agricultural Trade Offices in Guangzhou and Shanghai also organize in-store promotional activities throughout China designed to give Chinese consumers an opportunity to sample

¹ According to PSD online

U.S. products, while building awareness of their quality and value. Post's experience is that the most successful in-store promotions are those that target niche markets.

Figure 3: Selected U.S. Horticultural Exports to China



Source: World Trade Atlas

COMPETITION

Domestic

With scarce arable land resources and large surplus labor available, China is suited to the production of horticultural products. Different from more conventional agricultural products like grains, many horticultural products require less arable land, and more labor. Recognizing that China already suffers from a surplus of labor, more farmers are being employed in the production of labor-intensive horticultural products. China now produces over half of the world's vegetables, and 16% of the world's fruit.²

The Chinese government is also making an effort to play a more active role in its horticultural economy. In the current Five-year Plan, the government has placed special emphasis on developing commercially robust agricultural practices, in an effort to speed development of supply and marketing. It offers tax exemptions to traders who buy directly from Chinese farmers, and subsidies for resources devoted to the cold storage of horticultural products. As mentioned before, citrus and apples are two commodities that have been singled out by the national government for production support. Better farming organization is leading to larger-scale farming, using more automation in production, packaging, and transportation especially with hort growers becoming more involved in the supermarket and hypermarket chains spreading throughout China. However, much of this development is still in its early stages, and it will take some time before the full effect of these policies is realized.

International

U.S. producers are not alone in their effort to compete for a share of the growing Chinese hort market. Other country horticultural product competitors have expanded promotional activities throughout China. This is evidenced by the increased presence of worldwide hort products available in retail stores and markets. Products like oranges from South Africa, and apples and grapes from Chile are very competitive in China, especially because of their low

² From UN FAO data

price and high quality. Another factor in the success of other country competitors in China is many have growing seasons not overlapping with China's, unlike the U.S., which has similar growing seasons for many horticultural products.

PRODUCT PROSPECTS

Citrus

U.S. citrus has done moderately well in China, with the total export value reaching \$26 million in CY 2005.³ Oranges account for a large portion of this total, with U.S. grapefruit also having some limited success in the Chinese market despite diminished U.S. supply due to weather and disease. U.S. oranges and grapefruit are well known for their taste and attractive exterior, having substantial niche markets in use in gift baskets, and in the HRI (Hotel, Restaurant, and Institutional) sector. As with apples, niche marketing either in the gift or HRI sectors has proven to be a key element to successful market development.

Grapes

Grapes dominate U.S. fresh fruit exports to China, with CY 2005 seeing nearly \$45 million of U.S. grape exports to China, an increase of 9% from CY 2004.⁴ The increase in imports came despite competition from domestic grapes and imports from New Zealand and Mexico. Some of the success of California Grapes in the Chinese market can be attributed to early marketing efforts on the part of the industry and the introduction of new varieties of grapes into the market to offset growing domestic production of the popular Red Globe variety. The consistent quality and appearance of the U.S. product has also made it popular with retailers.

Apples

Despite China's emergence as a major apple producer and exporter, it continues to be an important importer of U.S. apples. Total value of U.S. apples exported to China reached \$15.7 million in CY 2005, despite heavy domestic competition and imports from South Africa.⁵ U.S. apples have been able to stake out a position in the high-end gift market where price is less of a factor than consistent outstanding appearance. Gift giving is an important part of life in China, and fruit baskets are given for a wide variety of occasions. As the disposable income of Chinese consumers continue to rise, many turn to imports as a means of adding distinction to a gift, which in the process create a niche markets for premium imports. ECMs in China also offer growth potential for imported apples.

Tree Nuts

Domestic demand for tree nuts has been increasing moderately for the last several years. Currently, the U.S. remains the single largest exporter of walnuts to China, and other varieties like almonds have also enjoyed some success in the domestic market. According to trader sources last year approximately 7,000 MT of almonds were exported to China from the U.S., totaling \$37 million. Value added (sliced, diced, etc) almonds have good future potential, mainly because the baking industry in China will need more value-added processed products. Yet the market for tree nuts in China is not without problems, as some traders complain tariffs remain high for in shell almonds and walnuts. In addition, market prices often fluctuate significantly from year to year.

Vegetables

Currently, frozen sweet corn accounts for the largest percentage of U.S. vegetable exports to China. In CY 2005 approximately \$13.6 million worth of frozen U.S. sweet corn was exported to China, a growth of 11% from the previous year.⁶ Much of the frozen corn is used

³ World Trade Atlas data

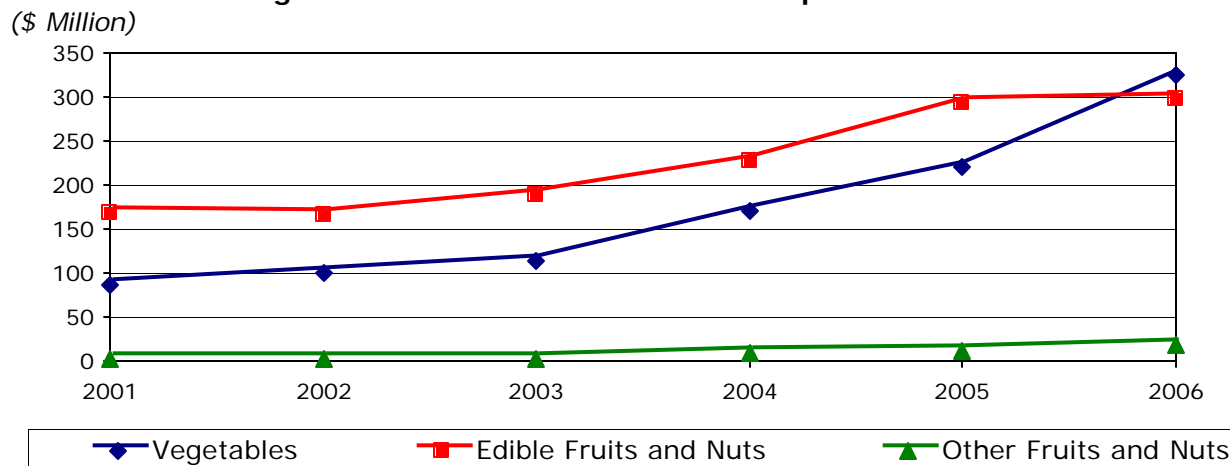
⁴ World Trade Atlas data

⁵ World Trade Atlas data

⁶ World Trade Atlas data

in *songzi yumi*, a popular Chinese dish with stir-fried sweet corn and pine nuts. Usually the corn is shipped in bulk and re-packaged with small packets of pine nuts to make a ready-to-cook meal package. U.S. frozen potato exports have also made a comeback with the help of media promotional campaigns, and now have a 70 percent share of the fry market in China. Still, at this point demand for many imported U.S. vegetables is problematic, due largely to handling and transportation costs.

Figure 4: Selected Net Horticultural Exports to China



Source: World Trade Atlas

RECOMMENDATIONS

China's horticultural market continues to grow at a rapid rate, and should continue to enjoy large increases in demand for hort products. In the coming years there should be greater demand for high quality products, presenting excellent market opportunities for U.S. horticultural product producers. U.S. producers should focus marketing activities on promoting their brand as a top quality, healthy alternative to domestic products. Good growth potential for U.S. grapes, citrus, nuts and apples exist in China's HRI and retail sectors, because of the growing number of Chinese middle class consumers concerned with product safety. However, greater competition from both international and domestic suppliers will be a significant factor as well. The government is taking a more active role in supporting domestic production of citrus and apples, but it will take some time before the full effects of these efforts are realized. With increasing domestic and international competition, U.S. producers must understand that success in the China market will take smart marketing, considerable effort, patience, and vision.

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